Makers Laboratories Limited

March 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00 (Reduced from 12.50)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total Bank Facilities	**12.00 (Rs. Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Makers Laboratories Limited (MLL) continues to derive comfort from the promoter's association with IPCA Laboratories Limited (IPCA) and long-standing experience of promoters in the Pharmaceutical industry, diversified product portfolio, satisfactory capital structure & debt protection metrics and long-standing supplier network. The ratings also take account of acquisition of Resonance Specialties Limited by MLL in September, 2020 and its impact on MLL's financial and business risk profile. The rating also takes cognizance of decline in profitability in FY20, moderate scale of operations with concentration on acute therapies segment, vulnerability accruing from volatility in raw material prices, exposure to regulatory risk, moderate working capital cycle and ongoing project risk.

Rating Sensitivities

Positive Factors:

- Improvement in PBILDT margins to 11% on sustained basis.
- Improvement in scale of operations above Rs.100 crore on standalone basis.

Negative factors

- Reduction in PBILDT margins below 5% on sustained basis
- Deterioration in capital structure above 0.8x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in the industry

The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. Premchand Godha, the Managing Director of IPCA is also the promoter of MLL. He is a Chartered Accountant with over 4 decades of experience in the Pharma Industry. He has been instrumental in turning around IPCA from a sick unit in 1975 to a profitable International Pharmaceutical company. Mr. Nilesh Jain and Mr. Sahil Parikh are whole-time Directors in MLL and handle day to day operations of the Company. Mr. Sahil Parikh is a graduate in B.Sc. (Bio-Chemistry) from Gujarat University. He has also done Diploma in Management Studies from Ahmadabad Management Association. He has two decades of experience in the Pharma Industry, wherein he has overlooked production, quality control, projects and general management. Mr. Nilesh Jain is a Commerce Graduate (B. Com) and M.M.S. (Masters in Management Studies) from Mumbai University. He has nearly 23 years of experience in the field of Materials Management, Marketing Management, Business Development and General Management. The management is ably supported by a team of well-qualified professionals down the line.

Diversified business segments backed by approved manufacturing facilities

The company primarily markets branded generic pharmaceutical formulations and generic formulations in the Indian market. The company procures its products on P2P basis from various companies situated in the excise free zone of Himachal Pradesh and Uttarakhand. The facilities of their vendors have all the necessary certifications in place including CGMP. It also manufactures injectables (Anti-malarial) at its facility in Naroda, Ahmedabad on a loan license basis which solely caters to IPCA. The manufacturing facility of MLL is CGMP certified. In February, 2021, the company has commissioned new plant for ophthalmic/eye-drop manufacturing facility at GIDC, Naroda, Ahmedabad at the total capital outlay of Rs.15 crore. The company has dispatched its first consignment as well and is expecting sales of Rs. 1.5 crore in FY21. This new product line is expected to strengthen its portfolio and improve operating margin for MLL as well.

Diversified product portfolio albeit concentration to acute therapies limits growth in absence of major R&D capability

MLL markets its products in major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-Inflammatory, Analgesic, Anti- Diabetics and other common diseases. The company's top formulation brands comprise of Duramol (Paracetamol), Artemak-AB (α-β Arteether), Loroquin (Chloroquine), Nimuwin (Nimuselide), Coffwin (Anti cough

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Range) and Exylin (Amoxycillin range). The company generates a stable stream of revenue from a diversified product portfolio with the top 10 products contributing 35% of the net sales in FY20 (38% of the net sales in FY19). The company also generates income from job-work done solely for IPCA towards manufacturing of Anti-Malarial Injectables amounting to Rs.8.31 crore during FY20 against Rs. 7.75 crore during FY19.

Improved operational performance from the injectables division

The company operates one manufacturing facility consisting of the injectables division in Naroda, Ahmedabad which manufactures Anti-malarials primarily for IPCA Laboratories Limited. The same is done on a loan license basis by the company which generates Rs. 6-7 crore per annum. The company has an installed capacity for manufacturing 46.80 million vials of anti-malarial injectables. Currently, MLL's Ahmedabad plant is operating at optimal capacity and it is expected to remain 100% utilized till September, 2021.

Long-standing supplier relations with PAN India supply chain

The company, by virtue of its long presence in the Pharma Industry and association with IPCA Laboratories Limited, has established a strong and dependable supplier network. The company's major P2P vendors are Meghmani LLP, Pinnacle Life Sciences Pvt Ltd, Vital Laboratories Pvt Ltd, Aarti Drugs Ltd, Smayan Healthcare Pvt Ltd and Acme Formulation, among others. The company procures majority of its API from Farmson Analgesics and IPCA Laboratories Ltd, among others. MLL has a sound supply chain operating PAN India backed by a strong distribution network of super stockists. In FY19, the Company made changes to its distribution model from Direct to Distributor to Direct to Stockist.

Comfortable capital structure

The company has a sound capital structure marked by the overall gearing remaining below unity at 0.29x as on March 31, 2020 (0.15x as on March 31, 2019). The company's debt profile comprises of working capital bank borrowings, and term loan availed in FY19-20 for funding the new ophthalmic facility. The Total Debt to GCA, of the company has therefore deteriorated to 5.93x (PY: 1.70x) and total debt to cash flow from operations at 3.19x (PY: 1.50x) in FY20. Going forward, MLL's overall gearing is expected to increase marginally as the company has availed ECLCG loan of Rs. 2 crore and enhancement in working capital limits to Rs.5 crore.

Acquisition of Resonance Specialties Limited in September, 2020

MLL has acquired majority shareholding of 45.48% in Resonance Specialties Limited (RSL) as on September 29, 2020 through Share Purchase agreement with investors of RSL. MLL paid total cash consideration of Rs.22.37 crore for acquiring controlling stake in RSL. Further, Kaygee Investements Pvt. Ltd. (promoted by Premchand Godha and his family member) has also acquired 8.76% in RSL and both promoter group now represents 54.24% holding in RSL. Post completion of regulatory approvals and compliance, MLL took over board of RSL w.e.f. December 21, 2020.

Resonance is engaged in the business of manufacturing and marketing of Pyridine, Picolines, Cynopyridines, Drug Intermediates and APIs. These chemicals are used in diverse industries, including pharmaceuticals, agro-chemicals, dyes and paints, food, and animal feeds. The company's manufacturing unit is situated at Tarapur (Maharashtra). MLL will derive synergy from RSL's product profile and diverse customer base and will help MLL to improve its top line and bottom line.

Project risk mitigated; commercial operations started for ophthalmic division

The company has executed capex amounting to Rs.15 crore during FY19-FY20 for the new ophthalmic division to be set up in Naroda, Ahmedabad for manufacturing vials for IPCA, for both the domestic and export markets. The project is completed and the company has started commercial manufacturing of ophthalmic products. However, it may take 3 to 4 months to sell the products in domestic market as the first commercial/validation batch need to be kept under validation. For exports, the registration process takes about 12-18 months from the date of validation and thus major export income is expected to flow in from Q2 of FY 22. The company expects to generate revenue of Rs. 1.5 crore in FY21 and is in process of acquiring export license for this division by Sept-21.

Key Ratings Weaknesses

Small scale of operations and margins impacted due to supply chain disruptions

The company generates a stable stream of revenue from a relatively moderate scale of operations. MLL's net sales grew by 11% to Rs.43.03 crore in FY20 (PY: Rs. 38.82 crore). During the year, the Company added few generic formulations in the market place as well as increased its geographical coverage through appointment of new distributors. However, MLL's operating margins fell to 5.73% in FY20 (PY: 9.51%) due to severe competition in the market place as well as increase in the input costs mainly of Active Pharmaceutical Ingredients, which could not be entirely passed on due to competition and price control regime. The decline is also attributed to change in sales policy as transition to Direct to Stockist model and consequently an increase in distribution costs like marketing personnel etc. The Company has now split into two Divisions namely Bulk formulation & Retail formulation Bulk division will cater to the requirement of Doctors who require generic formulations in bulk pack for dispensation whereas retail division will cater to the chemists through stockists. These two divisions have their own marketing team. Selling and distribution expenses incurred by the company at Rs.5.11 crore in FY20 as against Rs.2.25 crore in FY19.

For 9MFY21, the company has started improving margins as its distribution system has been established and now it is able supply directly to stockists and derive better margins from sales.

Moderate working capital cycle
The operating cycle has improved to 94 days in FY20 from 126 days in FY19 owing to significant improvement in collection period. MLL, now shifted to Direct to Stockist model and has improved collection period from 63 days in FY19 to 44 days in FY20. Further, this change in model also improved inventory position as earlier inventory used to stuck at distributor level. Inventory period improved to 93 days in FY20 from 107 days in FY19. Consequently, MLL's average working capital utilization remained moderate at 44% for 12-month period ending in December, 2020.
Vulnerability to Volatility in raw material prices and forex fluctuation risk
The raw material cost is the major cost component which accounted for 62% of the total cost of sales in FY20 (60% during FY19). Of this, 72% is accounted by cost of goods traded by the company on a P2P basis. The balance 28% pertains to raw materials procured indigenously for the injectables division. The volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices. The company primarily operates in the domestic market with no forex inflows compared to moderate forex outflow over the years. The company has no hedging mechanisms in place for the same. Resultantly, the company is exposed to risk associated with volatility in movement of foreign exchange rates.

Exposure to regulatory risk
The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in getting approvals for new product launch could adversely affect the business prospect of the company.

Liquidity analysis: Adequate
The company has cash and bank balance of Rs. 3.20 crore and current ratio at 1.09x as on September 30, 2020. MLL's average working capital utilization stood at 44% for 12-month period ending in December, 2020. Further, the company has completed capex in FY20 and has no major capex in near term. MLL has repayments of Rs.2.16 crore of bank borrowings in FY21 against expected cash accruals of Rs.2.50 crore. Further, MLL has availed enhancement in working capital limits and ECLGS loan. Considering above, MLL has adequate liquidity to meet any incremental working capital requirement in near term.

Analytical approach: For arriving at the ratings, CARE has considered the standalone financial of MLL and deriving support from its linkages with IPCA Laboratories Limited. Both the entities have sizable common shareholding pattern.

Applicable Criteria
Rating Methodology: Consolidation and Factoring Linkages in Ratings
CARE's policy on Default recognition
Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings
Rating Methodology – Pharmaceuticals
Liquidity Analysis of Non-Financial Sector Entities
Financials Ratio – Non-Financial Sector

About the Company
Makers Laboratories Limited (MLL), incorporated in July 1984, is an Indian Pharmaceutical company manufacturing Branded Generics. The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. Premchand Godha, the Managing Director of IPCA is also the promoter of MLL. MLL primarily markets Branded Generic Formulations and Generic Formulations in the domestic Market under major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-Inflammatory, Analgesic, Anti- Diabetics and other common diseases. The company gets it products manufactured on Procure to Pay (P2P) basis in the facilities of various companies situated in Himachal Pradesh and Uttarakhand. Additionally, the company also handles job-work for manufacturing of injectables (anti-malarial) solely for IPCA. The company adheres to all the requisite quality norms in order to ensure the best quality for its products.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	49.08	51.27
PBILDT	4.67	2.94
PAT	2.45	-0.12
Overall gearing (times)	0.15	0.29
Interest coverage (times)	18.16	4.17

A: Audited
Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February, 2024	7.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	7.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (11-Feb-20)	1)CARE BBB+; Stable (04-Jan-19)	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (11-Feb-20)	1)CARE BBB+; Stable (04-Jan-19)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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